

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
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PASS DEPARTMENT OF TREASURY, FEDERAL RESERVE
AND CEA

E.O. 11652: N/A
TAGS: EFIN, ECON, OECD
SUBJECT: OECD SECRETARIAT REPORT ON APRIL 16
G-10 DEPUTIES MEETING

REF: OECD 1116L

1. SUMMARY. SECRETARIAT REPORTED TO
OECD HEADS OF DEL ON APRIL 16 MEETING OF G-10
DEPUTIES, CONCENTRATING ON ASPECTS BEARING ON OECD
FINANCIAL SUPPORT FUND (FSF). PREVAILING VIEW ON FSF
SAID TO BE THAT PUTTING IT INTO EFFECT STILL CONSIDERED
DESIRABLE BUT THAT FINAL JUDGMENT CANNOT BE MADE UNTIL
DETAILS OF PROPOSED WITTEVEEN FACILITY EMERGE AND OPEC
CONTRIBUTIONS SECURED. END SUMMARY.

2. AT APRIL 19 MEETING OF HEADS OF DEL, OECD SECRE-
TARIAT (FAY) REPORTED ON APRIL 16 G-10 DEPUTIES
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MEETING, AS HAD BEEN AGREED AT APRIL 15 HEADS OF DEL
(REFTEL). INDICATING THAT HIS REPORT CONCENTRATED
ON THE POINTS OF INTEREST ARISING WITH RESPECT TO THE
FSF, FAY NOTED THAT G-10 DEPUTIES DISCUSSED QUESTION
OF MEANS OF INCREASING OFFICIAL FINANCING SOURCES
AGAINST BACKGROUND OF PROSPECT THAT LARGE PAYMENTS
DEFICITS WOULD CONTINUE, OF A LIKELIHOOD THAT PRIVATE

BANKING SYSTEM COULD NOT CONTINUE RECYCLING FUNCTION ON RECENT SCALE AND OF SIGNS OF INADEQUACY IN EXISTING OFFICIAL FINANCING AVAILABILITIES (WITNESS NEED TO MOBILIZE GAB FOR MODEST \$0.5 BILLION FOR ITALY). IMF STAFF HAS PRESENTED FOUR SEPARATE, BUT LINKED PROPOSALS:

- FURTHER QUOTA INCREASE (7TH QUOTA REVIEW, WHICH FAY SUGGESTED MIGHT TAKE 2 YEARS OR MORE TO PUT INTO PLACE);
- NEW SDR ALLOCATION;
- RENEGOTIATION OF GENERAL ARRANGEMENTS TO BORROW (GAB) TO INCREASE CONTRIBUTIONS;
- NEGOTIATION OF SPECIAL "WITTEVEEN FACILITY", WHICH HAD BEEN PREVIOUSLY DISCUSSED BY IMF EXECUTIVE DIRECTORS AND WHICH MIGHT BE SEEN AS BRIDGING GAP BEFORE EXPANDED IMF QUOTAS CAN BE PUT INTO EFFECT.

FAY NOTED THAT G-10 DEPUTIES DISCUSSED THESE FOUR PROPOSALS TOGETHER WITH CONSIDERATION OF FIFTH ITEM OF HOW FSF RELATED TO THE IDEAS ADVANCED BY IMF.

3. ON FSF, FAY NOTED THAT OECD OBSERVER (MARRIS) REPORTED TO G-10 DEPUTIES GIST OF APRIL 15 OECD HEADS OF DEL MEETING (REFTEL). FAY DESCRIBED G-10 DEPUTIES DISCUSSION ON FSF AND CHARACTERIZED IT AS FALLING IN THREE CATEGORIES AS FOLLOWS:

A) JAPAN. REP SAID GOJ IS NOT PREPARED TO CONSIDER WITTEVEEN FACILITY UNTIL PREVIOUSLY NEGOTIATED FACILITIES ARE PUT INTO PLACE, STRESSING FSF IN THIS LIMITED OFFICIAL USE

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REGARD.

B) UNITED STATES. USG PREFERS WITTEVEEN FACILITY FOR A NUMBER OF REASONS:

- MEETS CONGRESSIONAL DESIRE FOR OPEC PARTICIPATION IN SHARING THE BURDEN;
- HAS LONGER LIFE SPAN THAN FSF;
- DOES NOT HAVE APPEARANCE OF BAILING OUT BANKS TO EXTENT CONVEYED BY FSF;
- FSF WOULD VIRTUALLY REDUCE IMF TO CREDITOR OF LDC'S ONLY, THEREBY JEOPARDIZING ITS ABILITY TO IMPOSE CONDITIONALITY;
- CONGRESS IS MOST UNLIKELY TO ACCEPT BOTH;
- USG AGREES THAT ASSURANCE OF ADEQUATE

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OFFICIAL FINANCIAL FACILITIES HAS RELATIONSHIP
TO OECD GENERAL COOPERATIVE LINKS AMONG OECD
COUNTRIES WHICH US SUPPORTS (E.G., TRADE PLEDGE
AND ENERGY COOPERATION), BUT DOES NOT FEEL THAT
SUCH FINANCING FACILITIES NEED TO BE INSTITU-
TIONALLY ASSOCIATED WITH OECD;
-- HOWEVER, USG IS PREPARED TO RECONSIDER ITS POSI-
TION ON FSF IF WITTEVEEN FACILITY TURNS OUT TO
BE INADEQUATE.
C) OTHER DELS. FAY SAID OTHER COUNTRIES TOOK INTER-
MEDIATE POSITION, STRESSING THE COMPLEMENTARITY OF
THE TWO FACILITIES AND IN GENERAL FAVORING BOTH (HE
REPORTED THAT BELGIUM'S SUPPORT OF FSF WAS PARTICULARLY
STRONG). HE FOUND COMMON THEME IN THAT ALL "OTHER"
COUNTRIES WANTED TO SEE WHAT WITTEVEEN FACILITY LOOKED
LIKE BEFORE ACQUIESCING TO DE FACTO ABANDONMENT OF THE
FSF. CHAIRMAN'S SUMMARY EMPHASIZED INABILITY TO REACH
DECISION ABOUT WITTEVEEN FACILITY ON BASIS OF INFOR-
MATION AT HAND AND NOTED POSSIBILITY THAT CLEAR
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DECISION MAY NOT EMERGE PRIOR TO AUTUMN MEETING OF
IMF. IMF REP (POLLAK) AGREED THAT TIMING WAS DIFFI-
CULT TO PREDICT BUT FELT DETAILS COULD BE WORKED OUT

QUICKLY ONCE OPEC CONTRIBUTORS DECIDED TO PARTICIPATE (E.G., AT TIME OF INTERIM COMMITTEE). QUERIES ON THIS POINT ELICITED ADMISSION BY POLLAK THAT IMF HAD NO COMMITMENT FROM OPEC SIDE. (FAY NOTED THAT ABOVE SUMMARY CONSTITUTES MORE EQUIVOCAL ATTITUDE OF EC MEMBERS OF G-10 TOWARD FACILITY THAN IS SUGGESTED BY PRESS REPORTS OF APRIL 18 STATEMENT OF HEALEY AFTER EC FINANCE MINISTERS MEETING THAT EC FULLY SUPPORTS FACILITY.)

4. WITH RESPECT TO USG POSITION FAVORING WITTEVEEN FACILITY IN PART BECAUSE IT WOULD ENTAIL SOME OF THE BURDEN BEING BORNE BY OPEC (FAY QUOTED U.S. AS USING PHRASE AVOIDING "PAYING OPEC TWICE"), FAY NOTED THAT THE OECD OBSERVER HAD TAKEN ISSUE WITH THIS CONTENTION. FAY WENT ON TO SAY THAT, IN HIS VIEW, PROVIDING OPEC WITH AN OWNED ASSET IN IMF, DENOMINATED IN SDR (AND HENCE CARRYING A CERTAIN EXCHANGE RISK GUARANTEE), BEARING A MARKET RELATED INTEREST RATE AND ENJOYING SOME KIND OF PROTECTION OF THE LIQUIDITY OF THE CLAIM WOULD RATHER BE CONFERRING A BENEFIT ON THEM. IN REPLY TO A QUERY FROM THE DANISH AMBASSADOR WHETHER PROVIDING SUCH AN ASSET TO THE OPEC HAD SOME OF THE CHARACTERISTICS OF INDEXATION OF FINANCIAL ASSETS AND THUS COULD HAVE AN IMPACT ON DISCUSSION OF THIS ITEM IN CIEC, SECRETARIAT DECLINED TO CHARACTERIZE THE IMF STAFF'S PROPOSAL BUT AGREED THAT SOME ELEMENTS OF "INDEXATION" COULD BE INVOLVED.

5. FAY SAID THAT CHAIRMAN OF G-10 DEPUTIES HAD SUMMARIZED DISCUSSIONS ON OTHER IMF STAFF PROPOSALS AS FOLLOWS:

A) QUOTA INCREASE IN THE NEIGHBORHOOD OF 30
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PERCENT SEEMED LIKELY TO EMERGE;

B) THERE SHOULD BE NO SIGNIFICANT NEW ALLOCATION OF SDR (ALTHOUGH POSSIBLY A SYMBOLIC ONE), WITH SOME MEMBERS STRESSING DESIRABILITY OF IMPROVING QUALITY OF SDR'S; AND
C) RENEGOTIATION OF AN EXPANDED GAB SHOULD BE LEFT AS A RESIDUAL QUESTION PENDING RESOLUTION OF PROPOSAL ON WITTEVEEN FACILITY.

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